

**NORTH DAKOTA GUARANTEED  
STUDENT LOAN PROGRAM**

*FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009 AND 2008*

## **NORTH DAKOTA GUARANTEED STUDENT LOAN PROGRAM**

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## INDEPENDENT AUDITOR'S REPORT

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To the Industrial Commission  
State of North Dakota  
Bismarck, North Dakota

We have audited the accompanying financial statements of the business-type activities of the North Dakota Guaranteed Student Loan Program, a department of the State of North Dakota, as of and for the years ended September 30, 2009 and 2008, which collectively comprise the North Dakota Guaranteed Student Loan Program's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Program's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

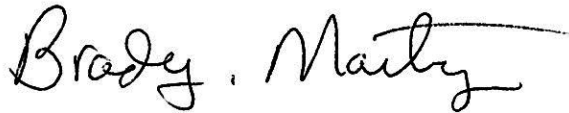
As discussed in Note 1, the financial statements of North Dakota Guaranteed Student Loan Program are intended to present the financial position, the changes in financial position, and the cash flows of only that portion of the business-type activities of the State of North Dakota that is attributable to the transactions of North Dakota Guaranteed Student Loan Program. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of September 30, 2009 and 2008, and the changes in its financial position and cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the North Dakota Guaranteed Student Loan Program as of September 30, 2009 and 2008 and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2009, on our consideration of the North Dakota Guaranteed Student Loan Program's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis (MD&A) on pages 3 through 8 are not a required part of the basic financial statements but is supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the North Dakota Guaranteed Student Loan Program's basic financial statements. The combining schedules and supplementary information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is also presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Brady Martz". The signature is written in a cursive, flowing style with a long horizontal line extending from the end of the name.

**BRADY, MARTZ & ASSOCIATES, P.C.**

December 7, 2009

# **NORTH DAKOTA GUARANTEED STUDENT LOAN PROGRAM**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **SEPTEMBER 30, 2009 AND 2008**

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The North Dakota Guaranteed Student Loan Program (the Program) has been designated to act as a guarantor of student loans made pursuant to the Higher Education Act of 1965, as amended (the Act), and certain other student loans if the North Dakota Industrial Commission determines that the student loans made under the terms of certain federal programs are no longer meeting the needs of North Dakota students, or are no longer available. Operationally, the Program is comprised of three components – an Agency Operating Fund (the AOF), an Alternative Loan Fund, both of which are property of the Program, and a separate group of monies administered by the Program (the Federal Student Loan Reserve Fund (FSLRF)), the net assets of which are property of the Federal Government and are reported as a liability to the Federal Government.

Note 1 to the financial statements provides a discussion of the organization and significant accounting policies of the Program. The financial statements of the Program provide accounting information similar to that of many other business entities. The Balance Sheet summarizes the assets, liabilities and net assets of the Program and provides the basis for analysis of the soundness and liquidity of the organization. The Statement of Revenues, Expenses and Changes in Fund Net Assets summarize the success of the organization in carrying out its business over the course of the most recent fiscal periods. The Statement of Cash Flows summarizes the flow of cash through the organization as it conducts its business.

The discussion and analysis of the financial performance of the Program which follows is meant to provide additional insight into the Program's activities for the fiscal year ended September 30, 2009. Please read it in conjunction with the Program's financial statements and footnotes which are presented elsewhere in this report. Please note that the Program continues to have adequate resources to act as a guarantor of student loans and the auditor's opinions which accompany the financial statements and the supplementary information are unqualified.

#### **FINANCIAL HIGHLIGHTS - - 2009**

##### *Agency Operating Fund*

Loans eligible for the loan processing and issuance fee in the fiscal year ending September 30, 2009 were \$199 million compared to \$161 million in the fiscal year ending September 30, 2008. A fee of .40% is paid to the Program by the Federal Government.

The original principal amount of the Program's Federal Family Education Loan guarantees outstanding at the end of fiscal year 2009 totaled \$1.171 billion compared to \$1.089 billion at the end of fiscal year 2008. This resulted in an increase of \$49,000 in account maintenance fees to the AOF for the fiscal year.

The Program provided first time default aversion activities on \$30 million in delinquent loans held by lenders in both the fiscal year ending September 30, 2009 and the fiscal year ended September 30, 2008. A one-time fee of 1% is received from the FSLRF for this service.

Collection revenue during the fiscal year ending September 30, 2009 was \$974,000 compared to \$1,093,000 received in the fiscal year ending September 30, 2008. The Program receives these revenues as reimbursement for collection efforts performed for the Department of Education (the Department).

The Agency Operating Fund unrestricted balance sheet indicates that there are adequate resources to meet the next fiscal year's obligations.

*Federal Student Loan Reserve Fund*

The reserve ratio of the FSLRF, calculated by dividing the sum of the FSLRF liability account and the allowance for loan loss by the original principal amount of guarantees outstanding, is .73% as of September 30, 2009. The minimum reserve ratio allowed by federal law is .25%.

State law requires that the Program must maintain a .25% reserve fund on deposit with the Bank of North Dakota (the Bank) for the original principal amount of all outstanding student loans insured or guaranteed by the Program which are subject to federal reinsurance. Sufficient reserve funds were in place at September 30, 2009.

The Program must maintain a reinsurance rate of less than 5% in order to receive the maximum reimbursement from the Federal Government on loan claims. The Program's reinsurance rate of .75% is well under this limitation.

The Federal Student Loan Reserve Fund 2009 balance sheet indicates that the FSLRF has adequate resources to provide for claim payments to lenders.

*Alternative Loan Fund*

State law requires that the Program must maintain a reserve fund on deposit with the Bank for all outstanding Alternative Loans. The fund level may be no less than the Bank of North Dakota historical default rate. Sufficient reserve funds were in place at September 30, 2009.

Alternative Loan Fund guarantees during the fiscal year ending September 30, 2009 were \$68.5 million compared to \$49.1 million guaranteed during the fiscal year ending September 30, 2008. A 2% administrative fee is received for loans disbursed under this program.

Alternative Loan Fund guarantees outstanding at the end of fiscal year 2009 totaled \$184 million compared to \$134 million at the end of fiscal year 2008.

The Alternative Loan Fund 2009 balance sheet indicates that the Alternative Loan Fund has adequate resources to provide for new loan guarantees, claim payments to lenders and continuing obligations.

**CONDENSED BALANCE SHEETS**  
**SEPTEMBER 30, 2009 AND 2008**

|  | (In Thousands) |           |
|--|----------------|-----------|
|  | 2009           | 2008      |
| <b>ASSETS</b>                                |                |           |
| Current assets                               |                |           |
| Cash and cash equivalents                    |                |           |
| Unrestricted                                 | \$ 4,398       | \$ 1,809  |
| Restricted                                   | 4,443          | 3,280     |
| Investments                                  |                |           |
| Unrestricted                                 | 6,150          | 7,530     |
| Restricted                                   | 4,000          | 3,575     |
| Receivables                                  |                |           |
| Unrestricted                                 | 837            | 888       |
| Restricted                                   | 2,798          | 2,305     |
| Total current assets                         | 22,626         | 19,387    |
| Total assets                                 | \$ 22,626      | \$ 19,387 |
| <b>LIABILITIES</b>                           |                |           |
| Current liabilities                          |                |           |
| Other  | \$ 3,798       | \$ 3,318  |
| Total current liabilities                    | 3,798          | 3,318     |
| Noncurrent liabilities                       |                |           |
| Allowance for future loan losses             | 5,608          | 4,369     |
| Federal Student Loan Reserve Fund            | 5,974          | 4,465     |
| Other  | 2,027          | 1,822     |
| Total noncurrent liabilities                 | 13,609         | 10,656    |
| Total liabilities                            | 17,407         | 13,974    |
| <b>NET ASSETS</b>                            |                |           |
| Restricted for default prevention activities | 611            | 605       |
| Unrestricted                                 | 4,608          | 4,808     |
| Total net assets                             | 5,219          | 5,413     |
| Total liabilities and net assets             | \$ 22,626      | \$ 19,387 |

*Cash and Cash Equivalents*

The Program considers all cash and time deposits with original maturities of three months or less to be cash and cash equivalents for purposes of reporting cash flows.

*Receivables*

The receivable balances are comprised of interest, administrative fee, reinsurance payments and various fees due to the Program as of the end of each year. Of these amounts, 74% and 68% were due from the Department as of the end of fiscal years 2009 and 2008, respectively.

*Allowance for Future Loan Losses*

The Program estimates the allowance for future loan losses based on periodic evaluation of outstanding loans guaranteed and historical claim rates on the Program's guarantee activities.

*Federal Student Loan Reserve Fund*

The balance in this account represents the Federal Government's share of the total assets of the Program as discussed in Notes 1 and 3 to the financial statements.



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**CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**YEARS ENDED SEPTEMBER 30, 2009 AND 2008**

|   | (In Thousands)  |                 |
|---|-----------------|-----------------|
|   | 2009            | 2008            |
| <b>OPERATING REVENUES</b>                   |                 |                 |
| Administrative fee                          | \$ 735          | \$ 626          |
| Loan recoveries net of DOE share            | 276             | 341             |
| Rehabilitation loans net of DOE share       | 321             | 338             |
| Collection cost revenues                    | 392             | 421             |
| Fee revenues                                | 1,798           | 1,584           |
|   | <u>3,522</u>    | <u>3,310</u>    |
| <b>OPERATING EXPENSES</b>                   |                 |                 |
| Service and administrative expense          | 2,414           | 2,395           |
| Loan loss expense                           | 1,136           | 888             |
| Other expenses                              | 119             | 121             |
|   | <u>3,669</u>    | <u>3,404</u>    |
| <b>OPERATING LOSS</b>                       | (147)           | (94)            |
| <b>NONOPERATING REVENUES</b>                |                 |                 |
| Interest income                             | <u>275</u>      | <u>375</u>      |
| <b>INCOME BEFORE TRANSFERS</b>              | 128             | 281             |
| <b>TRANSFERS</b>                            |                 |                 |
| Transfers Out                               | <u>(321)</u>    | <u>(411)</u>    |
| <b>CHANGE IN NET ASSETS</b>                 | (193)           | (130)           |
| <b>TOTAL NET ASSETS - BEGINNING OF YEAR</b> | <u>5,413</u>    | <u>5,543</u>    |
| <b>TOTAL NET ASSETS - ENDING OF YEAR</b>    | <u>\$ 5,220</u> | <u>\$ 5,413</u> |

*Operating Revenues and Expenses*

Note 1 to the financial statements contains discussion of several of the various operating revenue and expense items pertaining to Program operations.

*Service and Administrative Expense - Bank of North Dakota and Operating Transfers*

The Program has entered into a number of agreements as discussed in Note 6 to the financial statements pertaining to related party transactions. Several of these agreements resulted in payments between the various parties either to pay claims on student loans guaranteed by the Program, to fund operations of the Program, or to fund operations of the University of North Dakota (UND) on behalf of Campus Solutions in support of the North Dakota University System.

*Economic Factors*

Discussion at Notes 1, 6, and 7 to the financial statements indicate that the Program has an economic dependence on the Department for reinsurance of student loans guaranteed by the Program, and for the payment of certain activity based fees for the Program's administration of the loan programs for the Department.

Note 4 also provides information relative to transfers of funds from the Program to UND on behalf of Campus Solutions to fund a portion of their activities in support of the North Dakota University System.

*Budgetary Information*

As discussed in Note 1 to the financial statements, the North Dakota Century Code designates the Bank as the agency to administer the Program. The Bank's operations are funded under a biennial appropriation approved by the state legislature which encompasses the Bank's operations, including those of the Program. Section 15-62.1-01 of the North Dakota Century Code also provides continuing appropriation authority to expend monies received and interest earned as may be necessary to implement and administer the Program. Since the legislature does not identify separate appropriation funding for the Program, it is not possible to prepare an analysis of actual performance to appropriation for the Program.

*Contacting the North Dakota Guaranteed Student Loan Program's financial management*

The information in this report is intended to provide the reader with an overview of the results of the Program's operations along with the Program's accountability for those operations. If you have questions or require additional information, contact us at PO Box 5524, Bismarck, ND 58506-5524, or call us at 701-328-5621.

**NORTH DAKOTA GUARANTEED STUDENT LOAN PROGRAM**  
**BALANCE SHEETS**  
**SEPTEMBER 30, 2009 AND 2008**

|   | <u>2009</u>                 | <u>2008</u>                 |
|---|-----------------------------|-----------------------------|
| <b>ASSETS</b>                           |                             |                             |
| <b>CURRENT ASSETS</b>                   |                             |                             |
| Cash and cash equivalents               |                             |                             |
| Unrestricted                            | \$ 4,398,013                | \$ 1,809,093                |
| Restricted                              | <u>4,442,952</u>            | <u>3,279,949</u>            |
| Investments                             |                             |                             |
| Unrestricted                            | 6,150,000                   | 7,530,000                   |
| Restricted                              | <u>4,000,000</u>            | <u>3,575,000</u>            |
| Due from other funds                    |                             |                             |
| Restricted                              | <u>180</u>                  | <u>137</u>                  |
| Receivables                             |                             |                             |
| Unrestricted                            |                             |                             |
| Interest                                | 142,422                     | 194,134                     |
| Department of Education                 | 6,182                       | 298                         |
| Account maintenance fee                 | 221,046                     | 220,173                     |
| Loan processing and issuance fee        | 325,970                     | 304,479                     |
| Administrative fee                      | 141,260                     | 168,628                     |
| Restricted                              |                             |                             |
| Interest                                | 21,719                      | 39,355                      |
| Default fee                             | 637,821                     | 620,353                     |
| Federal reinsurance                     | <u>2,138,188</u>            | <u>1,645,579</u>            |
| Total receivables                       | <u>3,634,608</u>            | <u>3,192,999</u>            |
| Total current assets                    | <u>22,625,753</u>           | <u>19,387,178</u>           |
| <b>NONCURRENT ASSETS - Unrestricted</b> |                             |                             |
| Capital assets                          |                             |                             |
| Computer software                       | 3,819,514                   | 3,819,514                   |
| Accumulated amortization                | <u>(3,819,514)</u>          | <u>(3,819,514)</u>          |
| Total capital assets                    | <u>-</u>                    | <u>-</u>                    |
| Total assets                            | <u><u>\$ 22,625,753</u></u> | <u><u>\$ 19,387,178</u></u> |

See Notes to Financial Statements

|  | <u>2009</u>          | <u>2008</u>          |
|--|----------------------|----------------------|
| <b>LIABILITIES</b>                           |                      |                      |
| <b>CURRENT LIABILITIES</b>                   |                      |                      |
| Due to other funds                           | \$ 220,947           | \$ 209,818           |
| Payable to lenders                           | 1,806,815            | 1,366,164            |
| Collections payable                          |                      |                      |
| Department of Education                      | 147,751              | 194,666              |
| Unearned administrative fee                  | 879,000              | 721,000              |
| Allowance for future loan losses             | 668,000              | 768,000              |
| Estimated future refunds of DAF              | 75,000               | 59,000               |
|  | <u>3,797,513</u>     | <u>3,318,648</u>     |
| <b>NONCURRENT LIABILITIES</b>                |                      |                      |
| Unearned administrative fee                  | 1,667,830            | 1,501,897            |
| Allowance for future losses                  | 5,608,000            | 4,369,000            |
| Estimated future refunds                     |                      |                      |
| of default aversion fees                     | 359,000              | 320,000              |
| Federal Student Loan Reserve Fund            | 5,973,635            | 4,464,778            |
|  | <u>13,608,465</u>    | <u>10,655,675</u>    |
| Total noncurrent liabilities                 |                      |                      |
|  | <u>17,405,978</u>    | <u>13,974,323</u>    |
| <b>NET ASSETS</b>                            |                      |                      |
| Restricted for default prevention activities | 611,278              | 605,083              |
| Unrestricted                                 | 4,608,497            | 4,807,772            |
|  | <u>5,219,775</u>     | <u>5,412,855</u>     |
| Total net assets                             |                      |                      |
| Total liabilities and net assets             | <u>\$ 22,625,753</u> | <u>\$ 19,387,178</u> |

**NORTH DAKOTA GUARANTEED STUDENT LOAN PROGRAM**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS**  
**YEARS ENDED SEPTEMBER 30, 2009 AND 2008**

|   | <u>2009</u>                | <u>2008</u>                |
|---|----------------------------|----------------------------|
| <b>OPERATING REVENUES</b>   |                            |                            |
| Administrative fee  | \$ 734,519                 | \$ 625,640                 |
| Loan recoveries, net of remittance to Department of<br>Education of \$1,395,160 in 2009 and \$1,631,212 in 2008     | 276,385                    | 341,090                    |
| Rehabilitated loans, net of remittance to Department of<br>Education of \$1,210,027 in 2009 and \$1,121,338 in 2008 | 321,246                    | 337,804                    |
| Collection cost revenues, net of remittance to Department of<br>Education of \$85,121 in 2009 and \$131,869 in 2008 | 391,883                    | 421,478                    |
| Loan processing and issuance fees   | 797,153                    | 626,962                    |
| Account maintenance fees  | 702,419                    | 653,572                    |
| Default aversion fees   | 298,823                    | 303,264                    |
|   | <u>3,522,428</u>           | <u>3,309,810</u>           |
| <b>OPERATING EXPENSES</b>   |                            |                            |
| Service and administrative expense  | 2,414,017                  | 2,323,401                  |
| Default prevention activities   | -                          | 71,413                     |
| Loan loss expense   | 1,135,775                  | 887,619                    |
| DAF refund provision  | 119,399                    | 121,130                    |
|   | <u>3,669,191</u>           | <u>3,403,563</u>           |
| <b>OPERATING LOSS</b>   | (146,763)                  | (93,753)                   |
| <b>NONOPERATING REVENUES</b>  |                            |                            |
| Interest income   | <u>274,690</u>             | <u>375,273</u>             |
| <b>INCOME BEFORE TRANSFERS</b>  | 127,927                    | 281,520                    |
| <b>TRANSFERS</b>  |                            |                            |
| Transfer to The North Dakota University System  | <u>(321,007)</u>           | <u>(411,504)</u>           |
| <b>CHANGE IN NET ASSETS</b>   | (193,080)                  | (129,984)                  |
| <b>TOTAL NET ASSETS, BEGINNING OF YEAR</b>  | <u>5,412,855</u>           | <u>5,542,839</u>           |
| <b>TOTAL NET ASSETS, END OF YEAR</b>  | <u><u>\$ 5,219,775</u></u> | <u><u>\$ 5,412,855</u></u> |

**NORTH DAKOTA GUARANTEED STUDENT LOAN PROGRAM**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED SEPTEMBER 30, 2009 AND 2008**

|  | <u>2009</u>                | <u>2008</u>                |
|--|----------------------------|----------------------------|
| <b>OPERATING ACTIVITIES</b>                            |                            |                            |
| Loan recoveries received from borrowers                | \$ 1,688,908               | \$ 2,002,390               |
| Loan recoveries remitted to DOE                        | (1,393,802)                | (1,613,545)                |
| Loan loss claims paid to lenders - BND                 | (4,572,191)                | (3,129,554)                |
| Loan loss claims paid to other lenders                 | (3,291,580)                | (2,436,643)                |
| Loan loss claims received from DOE                     | 7,409,965                  | 5,533,672                  |
| Rehab loan proceeds received from lenders - BND        | 1,877,052                  | 1,787,347                  |
| Rehab loan proceeds remitted to DOE                    | (1,220,369)                | (1,164,743)                |
| Collections received from borrowers                    | 96,944                     | 143,719                    |
| Loan processing and issuance fees received from DOE    | 775,662                    | 568,615                    |
| Account maintenance fees received from DOE             | 701,546                    | 716,962                    |
| Default fees received from borrowers and lenders       | 1,912,794                  | 1,111,835                  |
| Administrative fee received from borrowers             | 1,085,820                  | 804,069                    |
| Service and administrative expense paid - BND          | (2,402,935)                | (2,379,772)                |
| <b>NET CASH FROM OPERATING ACTIVITIES</b>              | <u>2,667,814</u>           | <u>1,944,352</u>           |
| <b>NON-CAPITAL FINANCING ACTIVITIES</b>                |                            |                            |
| Cash transferred to The North Dakota University System | (321,007)                  | (411,504)                  |
| <b>INVESTING ACTIVITIES</b>                            |                            |                            |
| Proceeds from investment maturities - BND              | 16,755,000                 | 9,167,300                  |
| Purchase of investments - BND                          | (15,800,000)               | (10,975,000)               |
| Interest received                                      | 450,116                    | 518,529                    |
| <b>NET CASH FROM (USED BY) INVESTING ACTIVITIES</b>    | <u>1,405,116</u>           | <u>(1,289,171)</u>         |
| <b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>         | <u>3,751,923</u>           | <u>243,677</u>             |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>    | <u>5,089,042</u>           | <u>4,845,365</u>           |
| <b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>          | <u><u>\$ 8,840,965</u></u> | <u><u>\$ 5,089,042</u></u> |

(continued on next page)

STATEMENTS OF CASH FLOWS – page 2

|  | <u>2009</u>         | <u>2008</u>         |
|--|---------------------|---------------------|
| RECONCILIATION OF OPERATING LOSS TO NET<br>CASH FROM OPERATING ACTIVITIES        |                     |                     |
| Operating loss   | \$ (146,763)        | \$ (93,753)         |
| Adjustments to reconcile operating loss to<br>net cash from operating activities |                     |                     |
| Loan loss expense  | 1,139,000           | 926,000             |
| DAF refund provision, net of refunds   | 55,000              | 76,000              |
| Changes in assets and liabilities:   |                     |                     |
| Due from other funds   | (59,772)            | (137)               |
| Administrative fee receivable - BND  | 27,368              | (73,527)            |
| Default fee receivable   | (17,468)            | (467,858)           |
| Department of Education receivable   | (498,493)           | 504,024             |
| Account maintenance fee receivable   | (873)               | 63,390              |
| Loan processing and issuance fee receivable                                      | (21,491)            | (58,347)            |
| Unearned administrative fee  | 323,933             | 251,956             |
| Due to other funds   | 70,858              | 15,089              |
| Payable to lenders   | 440,651             | (302,290)           |
| Collections payable  | (46,915)            | (20,786)            |
| Other payables   | -                   | (8,820)             |
| Federal Student Loan Reserve Fund, net of interest                               | 1,402,779           | 1,133,411           |
| NET CASH FROM OPERATING ACTIVITIES   | <u>\$ 2,667,814</u> | <u>\$ 1,944,352</u> |

# **NORTH DAKOTA GUARANTEED STUDENT LOAN PROGRAM**

## **NOTES TO FINANCIAL STATEMENTS**

### **SEPTEMBER 30, 2009 AND 2008**

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#### **NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

##### *Nature of Operations*

Section 15-62.1 of the North Dakota Century Code (NDCC) designates the Bank of North Dakota (the Bank) as the agency for the administration of the North Dakota Guaranteed Student Loan Program (the Program). The Program shall expend monies received and interest on the reserve funds established pursuant to this section of the NDCC as may be necessary to implement and administer the Program. The Program has been designated to act as a guarantor of student loans made pursuant to the Higher Education Act of 1965, as amended (the Act), and certain other student loans if the North Dakota Industrial Commission determines that student loans made under the terms of certain federal programs are no longer meeting the needs of North Dakota students, or are no longer available. As such, the Program is responsible for processing loans submitted for guarantee, issuing loan guarantees, providing collection assistance to lenders for delinquent loans, paying lender claims for loans and collecting loans on which default claims have been paid.

The Program is comprised of three components – an Agency Operating Fund (the AOF), an Alternative Loan Fund and a separate group of monies administered by the Program (the Federal Student Loan Reserve Fund (FSLRF)). The AOF and any future earnings of the fund are the property of the Program, and may be used for application processing, loan disbursement, enrollment and repayment status management, default aversion activities, default collection activities, school and lender training, financial aid awareness and related outreach activities, compliance monitoring and other student financial aid related activities as selected by the Program. The Alternative Loan Fund and any earnings on the fund are property of the Program and may be used to fund the operations of the Program in its role as a guarantor of student loans outside the scope of the Act. The FSLRF and any earnings thereon are the sole property of the Federal Government, and may only be used to pay claims and certain specified fees.

In accordance with the provisions of the Act, the Program has entered into certain contracts with the U.S. Department of Education (the Department). These contracts define the responsibilities of the Program to the Department and qualify the Program for various forms of payment available under the Act. The basic agreement provides for the qualification of borrowers and participating lenders whose loans are guaranteed by the Program for federal interest benefits. Other agreements provide for reinsurance of loans with the Federal Government.

##### *Reporting Entity*

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, the Program should include all component units over which the Program exercises such aspects as (1) appointing a voting majority of an organization's governing body and (2) has the ability to impose its will on that organization, or (3) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the Program.

Based on the criteria of GASB Statement No. 14, no organizations were determined to be part of the Program. The Program is included as part of the primary government in the State of North Dakota's reporting.

##### *Accounting Standards*

The Program follows the pronouncements of the Governmental Accounting Standards Board, which is the nationally accepted standard setting body for establishing generally accepted accounting principles for governmental entities. In accordance with GASB Statement No. 20, the Program follows all applicable GASB pronouncements as well as Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with GASB pronouncements.



## NOTES TO FINANCIAL STATEMENTS

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### *Fund Accounting*

The AOF and the Alternative Loan Fund are both property of the Program and are reported herein as enterprise funds. The FSLRF is property of the Federal Government, and is administered by the Program. The net assets of the FSLRF are reported herein as a liability to the Federal Government.

### *Basis of Accounting and Measurement Focus*

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All enterprise funds are accounted using the economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. Net assets are segregated into invested in capital assets, restricted and unrestricted components. The statements of revenues, expenses and changes in fund net assets present increases (e.g., revenues) and decreases (e.g., expenses) in total net assets. The statements of cash flows present the cash flows for operating activities, investing activities and non-capital financing activities.

The AOF and Alternative Loan Fund are enterprise funds and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

The FSLRF uses the accrual basis of accounting for recognition of increases and decreases in amounts due to the Federal Government.

In the process of aggregating data for the financial statements, some amounts reported as interfund activity and balances in the funds have been eliminated or reclassified.

### *Use of Estimates*

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the balance sheet and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

### *Cash and Cash Equivalents*

The Program considers all cash and time deposits with original maturities of three months or less to be cash and cash equivalents for purposes of reporting cash flows.

### *Deposits and Investments*

The Program records deposits and investments in accordance with Governmental Accounting Standards Board Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools." Nonnegotiable certificates of deposit meet the classification of Interest-earning Investment Contracts having redemption terms which do not consider market rates and are therefore carried at cost. Investment securities are carried at their market value. Unrealized gains and losses due to fluctuations in market value are included in investment income.

## NOTES TO FINANCIAL STATEMENTS

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### *Capital Assets*

The Program has developed computer software for internal use that it has capitalized in accordance with AICPA Statement of Position 98-1 "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." The cost of the computer software is being amortized on a straight-line basis over its estimated useful life of three years. Computer software with a cost of \$5,000 or more is capitalized.

Proceeds received from the sale of computer software, net of direct incremental costs of marketing, are applied against the carrying amount of the software. No profit is recognized until aggregate new proceeds from sales and amortization have reduced the carrying amount of the software to zero. Subsequent proceeds are recognized in revenue earned.

### *Administrative Fee Revenue*

Administrative fee revenue is to be used by the Program to insure loans and to cover costs incurred in the administration of the Alternative Loan Fund. Revenues are recognized over the estimated life of an average loan (10 years) using the sum-of-the-years digits method. Administrative fees received and receivable which have not been recognized as revenue were recorded on the balance sheet as unearned administrative fee. Changes in unearned administrative fees for the years ending September 30, 2009 and 2008 are as follows:

|                            | <u>2009</u>         | <u>2008</u>         |
|----------------------------|---------------------|---------------------|
| Balance, beginning of year | \$ 2,222,897        | \$ 1,970,941        |
| Collections                | 1,058,452           | 877,596             |
| Amortization of fees       | <u>(734,519)</u>    | <u>(625,640)</u>    |
| Balance, end of year       | <u>\$ 2,546,830</u> | <u>\$ 2,222,897</u> |

### *Default Fee Revenue*

Provisions of the Higher Education Reconciliation Act, part of the Deficit Reduction Act of 2005, require a default fee to be deposited into the FSLRF at a level of 1% of the Program's net loan disbursements. The Program recognizes the fee as income upon loan disbursement.

### *Loan Recoveries, Rehabilitated Loans and Collection Cost Revenues*

Regulations require that the Program assess collection costs on all defaulted loans which it is attempting to collect for the Department. The Program is entitled to retain for its operations a portion of its collections of principal, interest and collection costs received on defaulted loans. Income is recorded when the loan collections are received.

### *Loan Processing and Issuance Fee*

The Act provides a loan processing and issuance fee to be paid by the Department to compensate the Program for certain costs incurred by the Program. The Department pays this fee quarterly to the AOF at a level of 0.40% of the Program's net loan disbursements. The Program recognizes the fee as income upon loan disbursement.

## NOTES TO FINANCIAL STATEMENTS

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### *Account Maintenance Fees*

The Act provides an account maintenance fee to be paid by the Department to compensate the Program for certain costs incurred by the Program. The Department pays the account maintenance fee to the AOF at a level of 0.06% of the original principal amount of outstanding guarantees as of September 30.

### *Default Aversion Fee and Estimated Future Refunds of Default Aversion Fees*

The Act provides a default aversion fee to be paid from the FSLRF to the AOF to compensate the Program for certain costs incurred by the Program. Payment of this fee is limited to once per loan and is equal to one percent (1%) of the principal and accrued interest receivable balances when default aversion assistance is requested by lenders, with an obligation to refund the fee in the event of default based upon principal and accrued interest receivable at the time of claim payment. The fee is recognized upon completion of the default aversion activities by the Program, net of estimated refunds.

The Program uses the percentage of income method to calculate the estimated allowance for refunds of the default aversion fee based on a periodic evaluation of default aversion fees received and a historical refund rate.

|                            | <u>2009</u>       | <u>2008</u>       |
|----------------------------|-------------------|-------------------|
| Balance, beginning of year | \$ 379,000        | \$ 303,000        |
| Refund provision           | 119,399           | 121,130           |
| Refunds paid               | <u>(64,399)</u>   | <u>(45,130)</u>   |
| Balance, end of year       | <u>\$ 434,000</u> | <u>\$ 379,000</u> |

### *Loan Loss Expenses*

The Program estimates the allowance for future loan losses based on periodic evaluation of outstanding loans guaranteed and historical claim rates on the Program's guarantee activities.

Changes in the allowance for future loan losses for the Alternative Loan Fund for the years ending September 30, 2009 and 2008 are as follows:

|                            | <u>2009</u>         | <u>2008</u>         |
|----------------------------|---------------------|---------------------|
| Balance, beginning of year | \$ 2,677,000        | \$ 1,881,000        |
| Loan loss expense          | 1,135,775           | 887,619             |
| Claims paid                | <u>(161,775)</u>    | <u>(91,619)</u>     |
| Balance, end of year       | <u>\$ 3,651,000</u> | <u>\$ 2,677,000</u> |

The FSLRF is reimbursed by the Federal Government for a portion of claims paid on FFELP loans as discussed in Note 6.

## NOTES TO FINANCIAL STATEMENTS

Changes in the allowance for future losses for the FSLRF for the years ending September 30, 2009 and 2008 are as follows:

|                                 | <u>2009</u>         | <u>2008</u>         |
|---------------------------------|---------------------|---------------------|
| Balance, beginning of year      | \$ 2,460,000        | \$ 2,330,000        |
| Loan loss expense               | 405,072             | 272,842             |
| Claims paid, net of reinsurance | <u>(240,072)</u>    | <u>(142,842)</u>    |
| Balance, end of year            | <u>\$ 2,625,000</u> | <u>\$ 2,460,000</u> |

### *Restricted Assets and Restricted Net Assets*

Certain Program assets and net assets carry a restricted classification, either because they are property of the Federal Government or their use has been restricted by the Federal Government for default prevention activities only.

If an expense is incurred that qualifies for use of both restricted and unrestricted resources, the Program will first apply restricted resources.

### *Operating and Non-operating Revenues*

Operating revenues consist of sales of goods and services, quasi-external operating transactions with other funds, grant revenue for specific activities that are considered to be operating activities of the grantor, receipts from other agencies for reimbursement of operating transactions and other miscellaneous revenue. Grants that would qualify as an operating activity are those that do not subsidize an existing program, rather they finance a program the agency would not otherwise undertake.

All other revenues that do not meet the above criteria are classified as non-operating.

## NOTE 2 - DEPOSITS AND INVESTMENTS

All funds have their moneys invested in securities or deposits allowed by federal and state regulations. Section 682.410(a)(5) of Federal Regulations states that assets of the Program may be invested in low-risk securities, such as obligations issued or guaranteed by the United States or a State. North Dakota Century Code Section 15-62.1-05 states that securities in which moneys of the Program may be invested must meet the same requirements as those authorized for investment under the state investment board.

### *Deposits*

As of September 30, 2009 and 2008, the Program had the following deposits:

|                           | <u>2009</u>         | <u>2008</u>          |
|---------------------------|---------------------|----------------------|
| Cash and Savings Accounts | \$ 8,840,965        | \$ 2,689,042         |
| Time Deposits             | <u>10,150,000</u>   | <u>13,505,000</u>    |
|                           | <u>\$18,990,965</u> | <u>\$ 16,194,042</u> |

## NOTES TO FINANCIAL STATEMENTS

### *Custodial and Concentration of Credit Risk*

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Program will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Program does not have a formal policy that limits custodial credit risk for deposits. None of the Program's deposits are covered by depository insurance. The Program's deposits are uncollateralized and all of the deposits are held at the Bank of North Dakota and are guaranteed by the State of North Dakota (NDCC Section 6-09-10).

### NOTE 3 - NONCURRENT LIABILITIES

Long-term liability activity for the years ended September 30, 2009 and 2008 was as follows:

|  | Balance<br>2008     | Additions           | Reductions            | Balance<br>2009     | Amounts<br>Due Within<br>One Year |
|--|---------------------|---------------------|-----------------------|---------------------|-----------------------------------|
| Unearned administrative fee                          | \$ 2,222,897        | \$ 1,058,452        | \$ (734,519)          | \$ 2,546,830        | \$ 879,000                        |
| Allowance for<br>future loan losses                  | 5,137,000           | 1,540,847           | (401,847)             | 6,276,000           | 668,000                           |
| Estimated future refunds of<br>default aversion fees | 379,000             | 119,398             | (64,398)              | 434,000             | 75,000                            |
| Federal Student<br>Loan Reserve Fund                 | 4,464,778           | 13,199,231          | (11,690,374)          | 5,973,635           | -                                 |
|  | <u>\$12,203,675</u> | <u>\$15,917,928</u> | <u>\$(12,891,138)</u> | <u>\$15,230,465</u> | <u>\$1,622,000</u>                |
|  | Balance<br>2007     | Additions           | Reductions            | Balance<br>2008     | Amounts<br>Due Within<br>One Year |
| Unearned administrative fee                          | \$ 1,970,941        | \$ 877,596          | \$ (625,640)          | \$ 2,222,897        | \$ 721,000                        |
| Allowance for<br>future loan losses                  | 4,211,000           | 1,160,461           | (234,461)             | 5,137,000           | 768,000                           |
| Estimated future refunds of<br>default aversion fees | 303,000             | 121,130             | (45,130)              | 379,000             | 59,000                            |
| Federal Student<br>Loan Reserve Fund                 | 3,172,503           | 10,252,093          | (8,959,818)           | 4,464,778           | -                                 |
|  | <u>\$ 9,657,444</u> | <u>\$12,411,280</u> | <u>\$ (9,865,049)</u> | <u>\$12,203,675</u> | <u>\$1,548,000</u>                |

## NOTES TO FINANCIAL STATEMENTS

A reconciliation of the FSLRF for the years ending September 30, 2009 and 2008 is as follows:

|  | <u>2009</u>         | <u>2008</u>         |
|--|---------------------|---------------------|
| Federal Student Loan Reserve Fund, beginning of year   | \$ 4,464,778        | \$ 3,172,503        |
| Investment income  | 106,077             | 158,863             |
| Default fee  | 1,930,262           | 1,579,693           |
| Loan revenues, net of remittance to Department of Education and AOF of \$3,148,302 in 2009 and \$3,399,418 in 2008 | 112,014             | 84,695              |
| Loan loss expense, net of reinsurance from Department of Education of \$7,902,575 in 2009 and \$5,029,423 in 2008  | (405,072)           | (272,842)           |
| Default aversion fee   | <u>(234,424)</u>    | <u>(258,134)</u>    |
| Federal Student Loan Reserve Fund, end of year   | <u>\$ 5,973,635</u> | <u>\$ 4,464,778</u> |

### NOTE 4 - INTERFUND AND RELATED PARTY TRANSACTIONS

|  | <u>2009</u>  | <u>2008</u>  |
|--|--------------|--------------|
| <b>BANK OF NORTH DAKOTA</b>                          |              |              |
| Cash and cash equivalents - unrestricted             | \$ 4,398,013 | \$ 1,809,093 |
| Cash and cash equivalents - restricted               | 4,442,952    | 3,279,949    |
| Investments - unrestricted                           | 6,150,000    | 7,530,000    |
| Investments - restricted                             | 4,000,000    | 3,575,000    |
| Due from other funds                                 | -            | 137          |
| Interest receivable - unrestricted                   | 142,422      | 194,134      |
| Interest receivable - restricted                     | 21,719       | 39,355       |
| Administrative fee receivable - unrestricted         | 141,260      | 168,628      |
| Default fee receivable - restricted                  | 422,985      | 340,924      |
| Due to other funds                                   | 220,947      | 209,818      |
| Payable to lenders                                   | 1,287,108    | 917,762      |
| <b>UNIVERSITY OF NORTH DAKOTA (Campus Solutions)</b> |              |              |
| Operating transfers - out                            | \$ 321,007   | \$ 411,504   |

In addition, the Program reimburses the Bank for expenses paid by the Bank on behalf of the Program. The reimbursements are based on an allocation of indirect costs and assignment of direct costs. Servicing and administrative expenses totaled \$2,414,017 in 2009 and \$2,384,747 in 2008. The payable to the Bank for such expenses, amounting to \$220,947 and \$209,818 at September 30, 2009 and 2008, respectively, is included in "Due To Other Funds" on the balance sheet.

At September 30, 2009 and 2008, the Program has guaranteed approximately \$959.9 million and \$819.1 million of loans owned by the Bank and the North Dakota Student Loan Trust (Trust). The Program paid claims of approximately \$4,608,000 and \$3,147,000 to the Bank and the Trust for the years ended September 30, 2009 and 2008, respectively. Some of those loans were subsequently rehabilitated and sold to the Bank.

The Program has agreed to fund certain computer programming and training positions of the University of North Dakota on behalf of Campus Solutions which are dedicated to support of financial aid activities of institutions of the North Dakota University System. Funding of these activities totaled approximately \$321,000 and \$412,000 during the years ended September 30, 2009 and 2008, respectively. Funding for these activities expired June 30, 2009.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 5 - GUARANTEE RESERVE AGREEMENTS

According to the Act, the Program is required to maintain a reserve ratio of the FSLRF at a minimum level of .25% of the original principal amount of guarantees outstanding. The reserve ratio is calculated by dividing the sum of the FSLRF liability account and the allowance for loan loss by the original principal amount of guarantees outstanding. The Program had a reserve ratio of .73% and .64% at September 30, 2009 and 2008, respectively.

For the Alternative Loan Fund, the Program must maintain a minimum guarantee fund that is no less than the Bank of North Dakota historical default rate. The Program has chosen to use a similar calculation as the reserve ratio in the FSLRF for this minimum amount. The ratio is calculated by dividing the sum of the unearned administrative fees, the allowance for future loan loss and the fund balance by the outstanding principal balance. The Program had a ratio of 4.96% in 2009 and 6.26% in 2008 which is well above the current Bank's historical default rate on alternative student loans.

### NOTE 6 - FEDERAL REINSURANCE OF STUDENT LOANS

In the event of borrower default on a guaranteed loan, the Act provides for reinsurance by the Federal Government based on the level of federal reinsurance associated with the Program's annual reinsurance rate (reinsurance claims paid by the federal government during the fiscal year divided by the amount of loans in repayment at the beginning of the year).

The Program is reimbursed by the Federal Government upon payment of claims on FFEL Program loans. The Program is, therefore, economically dependent on the Department of Education for these reimbursements and for its continued existence. The Program incurred claims totaling \$8,142,647 and \$5,172,268 for the years ended September 30, 2009 and 2008, of which \$2,138,188 and \$1,645,579 remains as a receivable from the Federal Government at September 30, 2009 and 2008. Reimbursement of default claims on FFEL Program loans is determined according to the following schedule. Reimbursement of claims on FFEL Program loans for reasons other than default is at 100%. There is no reimbursement of claims paid by the Alternative Loan Fund.

## NOTES TO FINANCIAL STATEMENTS

| Claim Percentage of<br>Loans in Repayment   | Levels of<br>Federal Reinsurance  |
|---|---|
| 0% to 5%<br>(On loans disbursed prior to 10/01/93)  | 100%  |
| 0% to 5%<br>(On loans disbursed on or after 10/01/93<br>and before 10/01/98)                                  | 98%   |
| 0% to 5%<br>(On loans disbursed on or after 10/01/98)   | 95%   |
| More than 5% but less than or equal to 9%<br>(On loans disbursed prior to 10/01/93)                           | 100% of claims up to 5%<br>and 90% of claims over 5%<br>but less than or equal to 9%                              |
| More than 5% but less than or equal to 9%<br>(On loans disbursed on or after 10/01/93<br>and before 10/01/98) | 98% of claims up to 5%<br>and 88% of claims over 5%<br>but less than or equal to 9%                               |
| More than 5% but less than or equal to 9%<br>(On loans disbursed on or after 10/01/98)                        | 95% of claims up to 5%<br>and 85% of claims over 5%<br>but less than or equal to 9%                               |
| Over 9%<br>(On loans disbursed prior to 10/01/93)   | 100% of claims up to 5%<br>and 90% of claims over 5%<br>but less than or equal to 9%<br>and 80% of claims over 9% |
| Over 9%<br>(On loans disbursed on or after 10/01/93<br>and before 10/01/98)                                   | 98% of claims up to 5%<br>and 88% of claims over 5%<br>but less than or equal to 9%<br>and 78% of claims over 9%  |
| Over 9%<br>(On loans disbursed on or after 10/01/98)  | 95% of claims up to 5%<br>and 85% of claims over 5%<br>but less than or equal to 9%<br>and 75% of claims over 9%  |

Each year the Department of Education calculates the Program's reinsurance rate for the ensuing year based on historical levels of claims paid. At no time has the Program's reinsurance rate exceeded the 5% level discussed above.



## NOTES TO FINANCIAL STATEMENTS

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### NOTE 7 - RISK MANAGEMENT

The Program is exposed to various risks of loss related to torts and errors and omissions. The Program is administered by the Bank and, therefore, is eligible to the same funds/pools established by the State for risk management issues. These include:

The 1995 Legislative Session established the Risk Management Fund (RMF), an internal service fund, to provide a self-insurance vehicle for funding the liability exposures of State Agencies resulting from the elimination of the State's sovereign immunity. The RMF manages the tort liability of the State, its agencies' employees, and the University System. All State agencies participating in the RMF and their fund contribution was determined using a projected cost allocation approach. The statutory liability of the State is limited to a total of \$250,000 per person and \$1,000,000 per occurrence.

The State Bonding Fund currently provides the Bank with blanket employee fidelity bond coverage in the amount of \$100,000. The State Bonding Fund does not currently charge any premium for this coverage.

There have been no significant reductions in insurance coverage from the prior year and settled claims resulting from these risks have not exceeded insurance coverage.

**NORTH DAKOTA GUARANTEED STUDENT LOAN PROGRAM**  
**COMBINING BALANCE SHEET**  
**SEPTEMBER 30, 2009**

|   | 2009           |              |               |              |               |
|---|----------------|--------------|---------------|--------------|---------------|
|   | Agency         | Alternative  | Federal       |              |               |
|   | Operating Fund | Loan Fund    | Student Loan  | Eliminations | Total         |
|   |                |              | Reserve Fund  |              |               |
| <b>ASSETS</b>                           |                |              |               |              |               |
| <b>CURRENT ASSETS</b>                   |                |              |               |              |               |
| Cash and cash equivalents               |                |              |               |              |               |
| Unrestricted                            | \$ 1,095,976   | \$ 3,302,037 | \$ -          | \$ -         | \$ 4,398,013  |
| Restricted                              | 110,773        | -            | 4,332,179     | -            | 4,442,952     |
| Investments                             |                |              |               |              |               |
| Unrestricted                            | -              | 6,150,000    | -             | -            | 6,150,000     |
| Restricted                              | 500,000        | -            | 3,500,000     | -            | 4,000,000     |
| Due from other funds                    |                |              |               |              |               |
| Unrestricted                            | 665            | 59,877       | -             | (60,542)     | -             |
| Restricted                              | -              | -            | 180           | -            | 180           |
| Receivables                             |                |              |               |              |               |
| Unrestricted                            |                |              |               |              |               |
| Interest                                | 365            | 142,057      | -             | -            | 142,422       |
| Default aversion fee                    | 18,764         | -            | -             | (18,764)     | -             |
| Department of Education                 | 6,182          | -            | -             | -            | 6,182         |
| Account maintenance fee                 | 221,046        | -            | -             | -            | 221,046       |
| Loan processing and issuance fee        | 325,970        | -            | -             | -            | 325,970       |
| Administrative fee                      | -              | 141,260      | -             | -            | 141,260       |
| Restricted                              |                |              |               |              |               |
| Interest                                | 505            | -            | 21,214        | -            | 21,719        |
| Default fee                             | -              | -            | 637,821       | -            | 637,821       |
| Federal reinsurance                     | -              | -            | 2,138,188     | -            | 2,138,188     |
| Total receivables                       | 572,832        | 283,317      | 2,797,223     | (18,764)     | 3,634,608     |
| Total current assets                    | 2,280,246      | 9,795,231    | 10,629,582    | (79,306)     | 22,625,753    |
| <b>NONCURRENT ASSETS - Unrestricted</b> |                |              |               |              |               |
| Capital assets                          |                |              |               |              |               |
| Computer software                       | 3,819,514      | -            | -             | -            | 3,819,514     |
| Accumulated amortization                | (3,819,514)    | -            | -             | -            | (3,819,514)   |
| Total capital assets                    | -              | -            | -             | -            | -             |
| Total assets                            | \$ 2,280,246   | \$ 9,795,231 | \$ 10,629,582 | \$ (79,306)  | \$ 22,625,753 |

|   | 2009           |              |                           |              |               |
|---|----------------|--------------|---------------------------|--------------|---------------|
|   | Agency         | Alternative  | Federal                   |              |               |
|   | Operating Fund | Loan Fund    | Student Loan Reserve Fund | Eliminations | Total         |
| <b>LIABILITIES</b>                                |                |              |                           |              |               |
| <b>CURRENT LIABILITIES</b>                        |                |              |                           |              |               |
| Due to other funds                                | \$ 193,833     | \$ 27,020    | \$ 60,636                 | \$ (60,542)  | \$ 220,947    |
| Default aversion fee payable                      | -              | -            | 18,764                    | (18,764)     | -             |
| Payable to lenders                                | -              | -            | 1,806,815                 | -            | 1,806,815     |
| Collections payable                               |                |              |                           |              |               |
| Department of Education                           | 3,019          | -            | 144,732                   | -            | 147,751       |
| Unearned administrative fee                       | -              | 879,000      | -                         | -            | 879,000       |
| Allowance for future loan losses                  | -              | 295,000      | 373,000                   | -            | 668,000       |
| Estimated future refunds of default aversion fees | 75,000         | -            | -                         | -            | 75,000        |
| Total current liabilities                         | 271,852        | 1,201,020    | 2,403,947                 | (79,306)     | 3,797,513     |
| <b>NONCURRENT LIABILITIES</b>                     |                |              |                           |              |               |
| Unearned administrative fee                       | -              | 1,667,830    | -                         | -            | 1,667,830     |
| Allowance for future losses                       | -              | 3,356,000    | 2,252,000                 | -            | 5,608,000     |
| Estimated future refunds of default aversion fees | 359,000        | -            | -                         | -            | 359,000       |
| Federal Student Loan Reserve Fund                 | -              | -            | 5,973,635                 | -            | 5,973,635     |
| Total noncurrent liabilities                      | 359,000        | 5,023,830    | 8,225,635                 | -            | 13,608,465    |
| Total liabilities                                 | 630,852        | 6,224,850    | 10,629,582                | (79,306)     | 17,405,978    |
| <b>NET ASSETS</b>                                 |                |              |                           |              |               |
| Restricted for default prevention activities      | 611,278        | -            | -                         | -            | 611,278       |
| Unrestricted                                      | 1,038,116      | 3,570,381    | -                         | -            | 4,608,497     |
| Total net assets                                  | 1,649,394      | 3,570,381    | -                         | -            | 5,219,775     |
| Total liabilities and net assets                  | \$ 2,280,246   | \$ 9,795,231 | \$ 10,629,582             | \$ (79,306)  | \$ 22,625,753 |

**NORTH DAKOTA GUARANTEED STUDENT LOAN PROGRAM**  
**COMBINING BALANCE SHEET**  
**SEPTEMBER 30, 2008**

|   | 2008           |              |              |              |               |
|---|----------------|--------------|--------------|--------------|---------------|
|   | Agency         | Alternative  | Federal      |              |               |
|   | Operating Fund | Loan Fund    | Student Loan | Eliminations | Total         |
|   |                |              | Reserve Fund |              |               |
| <b>ASSETS</b>                           |                |              |              |              |               |
| <b>CURRENT ASSETS</b>                   |                |              |              |              |               |
| Cash and cash equivalents               |                |              |              |              |               |
| Unrestricted                            | \$ 787,170     | \$ 1,021,923 | \$ -         | \$ -         | \$ 1,809,093  |
| Restricted                              | 28,098         | -            | 3,251,851    | -            | 3,279,949     |
| Investments                             |                |              |              |              |               |
| Unrestricted                            | -              | 7,530,000    | -            | -            | 7,530,000     |
| Restricted                              | 575,000        | -            | 3,000,000    | -            | 3,575,000     |
| Due from other funds                    |                |              |              |              |               |
| Unrestricted                            | 43,176         | 105          | -            | (43,281)     | -             |
| Restricted                              | -              | -            | 241          | (104)        | 137           |
| Receivables                             |                |              |              |              |               |
| Unrestricted                            |                |              |              |              |               |
| Interest                                | 455            | 193,679      | -            | -            | 194,134       |
| Default aversion fee                    | 31,408         | -            | -            | (31,408)     | -             |
| Department of Education                 | 298            | -            | -            | -            | 298           |
| Account maintenance fee                 | 220,173        | -            | -            | -            | 220,173       |
| Loan processing and issuance fee        | 304,479        | -            | -            | -            | 304,479       |
| Administrative fee                      | -              | 168,628      | -            | -            | 168,628       |
| Restricted                              |                |              |              |              |               |
| Interest                                | 1,985          | -            | 37,370       | -            | 39,355        |
| Default fee                             | -              | -            | 620,353      | -            | 620,353       |
| Federal reinsurance                     | -              | -            | 1,645,579    | -            | 1,645,579     |
| Total receivables                       | 558,798        | 362,307      | 2,303,302    | (31,408)     | 3,192,999     |
| Total current assets                    | 1,992,242      | 8,914,335    | 8,555,394    | (74,793)     | 19,387,178    |
| <b>NONCURRENT ASSETS - Unrestricted</b> |                |              |              |              |               |
| Capital assets                          |                |              |              |              |               |
| Computer software                       | 3,819,514      | -            | -            | -            | 3,819,514     |
| Accumulated amortization                | (3,819,514)    | -            | -            | -            | (3,819,514)   |
| Total capital assets                    | -              | -            | -            | -            | -             |
| Total assets                            | \$ 1,992,242   | \$ 8,914,335 | \$ 8,555,394 | \$ (74,793)  | \$ 19,387,178 |

|  | 2008                     |                          |   |              |               |
|--|--------------------------|--------------------------|---|--------------|---------------|
|  | Agency<br>Operating Fund | Alternative<br>Loan Fund | Federal<br>Student Loan<br>Reserve Fund | Eliminations | Total         |
| <b>LIABILITIES</b>                                   |                          |                          |   |              |               |
| <b>CURRENT LIABILITIES</b>                           |                          |                          |   |              |               |
| Due to other funds                                   | \$ 185,273               | \$ 24,602                | \$ 43,328                               | \$ (43,385)  | \$ 209,818    |
| Default aversion fee payable                         | -                        | -                        | 31,408                                  | (31,408)     | -             |
| Payable to lenders                                   | -                        | -                        | 1,366,164                               | -            | 1,366,164     |
| Collections payable                                  |                          |                          |   |              |               |
| Department of Education                              | 4,950                    | -                        | 189,716                                 | -            | 194,666       |
| Unearned administrative fee                          | -                        | 721,000                  | -                                       | -            | 721,000       |
| Allowance for future loan losses                     | -                        | 426,000                  | 342,000                                 | -            | 768,000       |
| Estimated future refunds<br>of default aversion fees | 59,000                   | -                        | -                                       | -            | 59,000        |
| Total current liabilities                            | 249,223                  | 1,171,602                | 1,972,616                               | (74,793)     | 3,318,648     |
| <b>NONCURRENT LIABILITIES</b>                        |                          |                          |   |              |               |
| Unearned administrative fee                          | -                        | 1,501,897                | -                                       | -            | 1,501,897     |
| Allowance for future losses                          | -                        | 2,251,000                | 2,118,000                               | -            | 4,369,000     |
| Estimated future refunds<br>of default aversion fees | 320,000                  | -                        | -                                       | -            | 320,000       |
| Federal Student Loan Reserve Fund                    | -                        | -                        | 4,464,778                               | -            | 4,464,778     |
| Total noncurrent liabilities                         | 320,000                  | 3,752,897                | 6,582,778                               | -            | 10,655,675    |
| Total liabilities                                    | 569,223                  | 4,924,499                | 8,555,394                               | (74,793)     | 13,974,323    |
| <b>NET ASSETS</b>                                    |                          |                          |   |              |               |
| Restricted for default prevention activities         | 605,083                  | -                        | -                                       | -            | 605,083       |
| Unrestricted   | 817,936                  | 3,989,836                | -                                       | -            | 4,807,772     |
| Total net assets                                     | 1,423,019                | 3,989,836                | -                                       | -            | 5,412,855     |
| Total liabilities<br>and net assets                  | \$ 1,992,242             | \$ 8,914,335             | \$ 8,555,394                            | \$ (74,793)  | \$ 19,387,178 |

**NORTH DAKOTA GUARANTEED STUDENT LOAN PROGRAM**  
**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS**  
**YEAR ENDED SEPTEMBER 30, 2009**

|  | 2009                     |                          |                     |
|--|--------------------------|--------------------------|---------------------|
|  | Agency<br>Operating Fund | Alternative<br>Loan Fund | Total               |
| <b>OPERATING REVENUES</b>  |                          |                          |                     |
| Administrative fee   | \$ -                     | \$ 734,519               | \$ 734,519          |
| Loan recoveries, net of remittance to<br>Department of Education of \$1,359,160      | 260,689                  | 15,696                   | 276,385             |
| Rehabilitated loans, net of remittance to<br>Department of Education of \$1,210,027  | 321,246                  | -                        | 321,246             |
| Collection cost revenues net of remittance to<br>Department of Education of \$85,121 | 391,883                  | -                        | 391,883             |
| Loan processing and issuance fees  | 797,153                  | -                        | 797,153             |
| Account maintenance fees   | 702,419                  | -                        | 702,419             |
| Default aversion fees  | 298,823                  | -                        | 298,823             |
|  | <u>2,772,213</u>         | <u>750,215</u>           | <u>3,522,428</u>    |
| <b>OPERATING EXPENSES</b>  |                          |                          |                     |
| Service and administrative expense   | 2,120,977                | 293,040                  | 2,414,017           |
| Loan loss expense  | -                        | 1,135,775                | 1,135,775           |
| DAF refund provision   | 119,399                  | -                        | 119,399             |
|  | <u>2,240,376</u>         | <u>1,428,815</u>         | <u>3,669,191</u>    |
| <b>OPERATING INCOME (LOSS)</b>   | <u>531,837</u>           | <u>(678,600)</u>         | <u>(146,763)</u>    |
| <b>NONOPERATING REVENUES</b>   |                          |                          |                     |
| Interest income  | <u>15,545</u>            | <u>259,145</u>           | <u>274,690</u>      |
| <b>INCOME (LOSS) BEFORE TRANSFERS</b>  | <u>547,382</u>           | <u>(419,455)</u>         | <u>127,927</u>      |
| <b>TRANSFERS</b>   |                          |                          |                     |
| Transfer to The North Dakota University System                                       | <u>(321,007)</u>         | <u>-</u>                 | <u>(321,007)</u>    |
| <b>CHANGE IN NET ASSETS</b>  | <u>226,375</u>           | <u>(419,455)</u>         | <u>(193,080)</u>    |
| <b>TOTAL NET ASSETS, BEGINNING OF YEAR</b>   | <u>1,423,019</u>         | <u>3,989,836</u>         | <u>5,412,855</u>    |
| <b>TOTAL NET ASSETS, END OF YEAR</b>   | <u>\$ 1,649,394</u>      | <u>\$ 3,570,381</u>      | <u>\$ 5,219,775</u> |

**NORTH DAKOTA GUARANTEED STUDENT LOAN PROGRAM**  
**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS**  
**YEAR ENDED SEPTEMBER 30, 2008**

|   | 2008                     |                          |                     |
|---|--------------------------|--------------------------|---------------------|
|   | Agency<br>Operating Fund | Alternative<br>Loan Fund | Total               |
| <b>OPERATING REVENUES</b>   |                          |                          |                     |
| Administrative fee  | \$ -                     | \$ 625,640               | \$ 625,640          |
| Loan recoveries, net of remittance to<br>Department of Education of \$1,631,212       | 333,683                  | 7,407                    | 341,090             |
| Rehabilitated loans, net of remittance to<br>Department of Education of \$1,121,338   | 337,804                  | -                        | 337,804             |
| Collection cost revenues net of remittance to<br>Department of Education of \$131,869 | 421,478                  | -                        | 421,478             |
| Loan processing and issuance fees   | 626,962                  | -                        | 626,962             |
| Account maintenance fees  | 653,572                  | -                        | 653,572             |
| Default aversion fees   | 303,264                  | -                        | 303,264             |
|   | <u>2,676,763</u>         | <u>633,047</u>           | <u>3,309,810</u>    |
| <b>OPERATING EXPENSES</b>   |                          |                          |                     |
| Service and administrative expense  | 2,249,909                | 73,492                   | 2,323,401           |
| Default prevention activities   | 71,413                   | -                        | 71,413              |
| Loan loss expense   | -                        | 887,619                  | 887,619             |
| DAF refund provision  | 121,130                  | -                        | 121,130             |
|   | <u>2,442,452</u>         | <u>961,111</u>           | <u>3,403,563</u>    |
| <b>OPERATING INCOME (LOSS)</b>  | <u>234,311</u>           | <u>(328,064)</u>         | <u>(93,753)</u>     |
| <b>NONOPERATING REVENUES</b>  |                          |                          |                     |
| Interest income   | <u>39,008</u>            | <u>336,265</u>           | <u>375,273</u>      |
| <b>INCOME BEFORE TRANSFERS</b>  | <u>273,319</u>           | <u>8,201</u>             | <u>281,520</u>      |
| <b>TRANSFERS</b>  |                          |                          |                     |
| Transfer to The North Dakota University System  | <u>(411,504)</u>         | <u>-</u>                 | <u>(411,504)</u>    |
| <b>CHANGE IN NET ASSETS</b>   | <u>(138,185)</u>         | <u>8,201</u>             | <u>(129,984)</u>    |
| <b>TOTAL NET ASSETS, BEGINNING OF YEAR</b>  | <u>1,561,204</u>         | <u>3,981,635</u>         | <u>5,542,839</u>    |
| <b>TOTAL NET ASSETS, END OF YEAR</b>  | <u>\$ 1,423,019</u>      | <u>\$ 3,989,836</u>      | <u>\$ 5,412,855</u> |

**NORTH DAKOTA GUARANTEED STUDENT LOAN PROGRAM**  
**COMBINING STATEMENT OF CASH FLOWS**  
**YEAR ENDED SEPTEMBER 30, 2009**

|   | 2009                     |                          |   |              |                     |
|---|--------------------------|--------------------------|---|--------------|---------------------|
|   | Agency<br>Operating Fund | Alternative<br>Loan Fund | Federal<br>Student Loan<br>Reserve Fund | Eliminations | Total               |
| <b>OPERATING ACTIVITIES</b>                               |                          |                          |   |              |                     |
| Loan recoveries received from borrowers                   | \$ 297,212               | \$ (44,076)              | \$ 1,435,772                            | \$ -         | \$ 1,688,908        |
| Loan recoveries remitted to DOE                           | -                        | -                        | (1,393,802)                             | -            | (1,393,802)         |
| Loan loss claims paid to lenders - BND                    | -                        | (161,775)                | (4,410,416)                             | -            | (4,572,191)         |
| Loan loss claims paid to other lenders                    | -                        | -                        | (3,291,580)                             | -            | (3,291,580)         |
| Loan loss claims received from DOE                        | -                        | -                        | 7,409,965                               | -            | 7,409,965           |
| Rehab loan proceeds received from lenders - BND           | 614,254                  | -                        | 1,262,798                               | -            | 1,877,052           |
| Rehab loan proceeds remitted to DOE                       | -                        | -                        | (1,220,369)                             | -            | (1,220,369)         |
| Collections received from borrowers                       | 96,944                   | -                        | -                                       | -            | 96,944              |
| Loan processing and<br>issuance fees received from DOE    | 775,662                  | -                        | -                                       | -            | 775,662             |
| Account maintenance fees received from DOE                | 701,546                  | -                        | -                                       | -            | 701,546             |
| Default aversion fees received from FFEL Program          | 247,068                  | -                        | (247,068)                               | -            | -                   |
| Default fees received from borrowers and lenders          | -                        | -                        | 1,912,794                               | -            | 1,912,794           |
| Administrative fee received from borrowers                | -                        | 1,085,820                | -                                       | -            | 1,085,820           |
| Service and administrative expense paid - BND             | (2,112,313)              | (290,622)                | -                                       | -            | (2,402,935)         |
| <b>NET CASH FROM OPERATING ACTIVITIES</b>                 | <b>620,373</b>           | <b>589,347</b>           | <b>1,458,094</b>                        | <b>-</b>     | <b>2,667,814</b>    |
| <b>NON-CAPITAL FINANCING ACTIVITIES</b>                   |                          |                          |   |              |                     |
| Cash transferred to<br>The North Dakota University System | (321,007)                | -                        | -                                       | -            | (321,007)           |
| <b>INVESTING ACTIVITIES</b>                               |                          |                          |   |              |                     |
| Proceeds from investment maturities - BND                 | 2,375,000                | 8,880,000                | 5,500,000                               | -            | 16,755,000          |
| Purchase of investments - BND                             | (2,300,000)              | (7,500,000)              | (6,000,000)                             | -            | (15,800,000)        |
| Interest received   | 17,115                   | 310,767                  | 122,234                                 | -            | 450,116             |
| <b>NET CASH FROM (USED<br/>FOR) INVESTING ACTIVITIES</b>  | <b>92,115</b>            | <b>1,690,767</b>         | <b>(377,766)</b>                        | <b>-</b>     | <b>1,405,116</b>    |
| <b>NET CHANGE IN CASH<br/>AND CASH EQUIVALENTS</b>        | <b>391,481</b>           | <b>2,280,114</b>         | <b>1,080,328</b>                        | <b>-</b>     | <b>3,751,923</b>    |
| <b>CASH AND CASH EQUIVALENTS,<br/>BEGINNING OF YEAR</b>   | <b>815,268</b>           | <b>1,021,923</b>         | <b>3,251,851</b>                        | <b>-</b>     | <b>5,089,042</b>    |
| <b>CASH AND CASH EQUIVALENTS,<br/>END OF YEAR</b>         | <b>\$ 1,206,749</b>      | <b>\$ 3,302,037</b>      | <b>\$ 4,332,179</b>                     | <b>\$ -</b>  | <b>\$ 8,840,965</b> |



**COMBINING STATEMENT OF CASH FLOWS – Page 2**  
**YEAR ENDED SEPTEMBER 30, 2009**

|  | 2009                     |                          |   |              |                     |
|--|--------------------------|--------------------------|---|--------------|---------------------|
|  | Agency<br>Operating Fund | Alternative<br>Loan Fund | Federal<br>Student Loan<br>Reserve Fund | Eliminations | Total               |
| <b>RECONCILIATION OF OPERATING INCOME (LOSS)</b>   |                          |                          |   |              |                     |
| <b>TO NET CASH FROM OPERATING ACTIVITIES</b>   |                          |                          |   |              |                     |
| Operating income   | \$ 531,837               | \$ (678,600)             | \$ -                                    | \$ -         | \$ (146,763)        |
| Adjustments to reconcile operating income (loss)<br>to net cash from (used for) operating activities |                          |                          |   |              |                     |
| Loan loss expense  | -                        | 974,000                  | 165,000                                 | -            | 1,139,000           |
| DAF refund provision, net of refunds   | 55,000                   | -                        | -                                       | -            | 55,000              |
| Changes in assets and liabilities:   |                          |                          |   |              |                     |
| Due from other funds   | 42,511                   | (59,772)                 | 61                                      | (42,572)     | (59,772)            |
| Administrative fee receivable - BND  | -                        | 27,368                   | -                                       | -            | 27,368              |
| Default fee receivable   | -                        | -                        | (17,468)                                | -            | (17,468)            |
| Department of Education receivable   | (5,884)                  | -                        | (492,609)                               | -            | (498,493)           |
| Account maintenance fee receivable   | (873)                    | -                        | -                                       | -            | (873)               |
| Loan processing and issuance fee receivable  | (21,491)                 | -                        | -                                       | -            | (21,491)            |
| Default aversion fee receivable  | 12,644                   | -                        | -                                       | (12,644)     | -                   |
| Unearned administrative fee  | -                        | 323,933                  | -                                       | -            | 323,933             |
| Due to other funds   | 8,560                    | 2,418                    | 17,308                                  | 42,572       | 70,858              |
| Payable to lenders   | -                        | -                        | 440,651                                 | -            | 440,651             |
| Collections payable  | (1,931)                  | -                        | (44,984)                                | -            | (46,915)            |
| Federal Student Loan Reserve Fund  | -                        | -                        | 1,402,779                               | -            | 1,402,779           |
| Default aversion fee payable   | -                        | -                        | (12,644)                                | 12,644       | -                   |
| <b>NET CASH FROM OPERATING ACTIVITIES</b>  | <b>\$ 620,373</b>        | <b>\$ 589,347</b>        | <b>\$ 1,458,094</b>                     | <b>\$ -</b>  | <b>\$ 2,667,814</b> |

**NORTH DAKOTA GUARANTEED STUDENT LOAN PROGRAM**  
**COMBINING STATEMENT OF CASH FLOWS**  
**YEAR ENDED SEPTEMBER 30, 2008**

|   | 2008                     |                          |   |              |                     |
|---|--------------------------|--------------------------|---|--------------|---------------------|
|   | Agency<br>Operating Fund | Alternative<br>Loan Fund | Federal<br>Student Loan<br>Reserve Fund | Eliminations | Total               |
| <b>OPERATING ACTIVITIES</b>                               |                          |                          |   |              |                     |
| Loan recoveries received from borrowers                   | \$ 291,822               | \$ 7,302                 | \$ 1,703,266                            | \$ -         | \$ 2,002,390        |
| Loan recoveries remitted to DOE                           | -                        | -                        | (1,613,545)                             | -            | (1,613,545)         |
| Loan loss claims paid to lenders - BND                    | -                        | (91,619)                 | (3,037,935)                             | -            | (3,129,554)         |
| Loan loss claims paid to other lenders                    | -                        | -                        | (2,436,643)                             | -            | (2,436,643)         |
| Loan loss claims received from DOE                        | -                        | -                        | 5,533,672                               | -            | 5,533,672           |
| Rehab loan proceeds received from lenders - BND           | 611,781                  | -                        | 1,175,566                               | -            | 1,787,347           |
| Rehab loan proceeds remitted to DOE                       | -                        | -                        | (1,164,743)                             | -            | (1,164,743)         |
| Collections received from borrowers                       | 143,719                  | -                        | -                                       | -            | 143,719             |
| Loan processing and<br>issuance fees received from DOE    | 568,615                  | -                        | -                                       | -            | 568,615             |
| Account maintenance fees received from DOE                | 716,962                  | -                        | -                                       | -            | 716,962             |
| Default aversion fees received from FFEL Program          | 259,132                  | -                        | (259,132)                               | -            | -                   |
| Default fees received from borrowers and lenders          | -                        | -                        | 1,111,835                               | -            | 1,111,835           |
| Administrative fee received from borrowers                | -                        | 804,069                  | -                                       | -            | 804,069             |
| Service and administrative expense paid - BND             | (2,329,708)              | (50,064)                 | -                                       | -            | (2,379,772)         |
| <b>NET CASH FROM OPERATING ACTIVITIES</b>                 | <b>262,323</b>           | <b>669,688</b>           | <b>1,012,341</b>                        | <b>-</b>     | <b>1,944,352</b>    |
| <b>NON-CAPITAL FINANCING ACTIVITIES</b>                   |                          |                          |   |              |                     |
| Cash transferred to<br>The North Dakota University System | (411,504)                | -                        | -                                       | -            | (411,504)           |
| <b>INVESTING ACTIVITIES</b>                               |                          |                          |   |              |                     |
| Proceeds from investment maturities - BND                 | 3,200,000                | 2,755,600                | 3,211,700                               | -            | 9,167,300           |
| Purchase of investments - BND                             | (3,775,000)              | (3,200,000)              | (4,000,000)                             | -            | (10,975,000)        |
| Interest received   | 42,204                   | 316,202                  | 160,123                                 | -            | 518,529             |
| <b>NET CASH USED FOR INVESTING ACTIVITIES</b>             | <b>(532,796)</b>         | <b>(128,198)</b>         | <b>(628,177)</b>                        | <b>-</b>     | <b>(1,289,171)</b>  |
| <b>NET CHANGE IN CASH<br/>AND CASH EQUIVALENTS</b>        | <b>(681,977)</b>         | <b>541,490</b>           | <b>384,164</b>                          | <b>-</b>     | <b>243,677</b>      |
| <b>CASH AND CASH EQUIVALENTS,<br/>BEGINNING OF YEAR</b>   | <b>1,497,245</b>         | <b>480,433</b>           | <b>2,867,687</b>                        | <b>-</b>     | <b>4,845,365</b>    |
| <b>CASH AND CASH EQUIVALENTS,<br/>END OF YEAR</b>         | <b>\$ 815,268</b>        | <b>\$ 1,021,923</b>      | <b>\$ 3,251,851</b>                     | <b>\$ -</b>  | <b>\$ 5,089,042</b> |

(continued on next page)

**COMBINING STATEMENT OF CASH FLOWS – Page 2**  
**YEAR ENDED SEPTEMBER 30, 2008**

|  | 2008                     |                          |   |              |                     |
|--|--------------------------|--------------------------|---|--------------|---------------------|
|  | Agency<br>Operating Fund | Alternative<br>Loan Fund | Federal<br>Student Loan<br>Reserve Fund | Eliminations | Total               |
| RECONCILIATION OF OPERATING INCOME (LOSS)        |                          |                          |   |              |                     |
| TO NET CASH FROM OPERATING ACTIVITIES            |                          |                          |   |              |                     |
| Operating income (loss)                          | \$ 234,311               | \$ (328,064)             | \$ -                                    | \$ -         | \$ (93,753)         |
| Adjustments to reconcile operating income (loss) |                          |                          |   |              |                     |
| to net cash from operating activities            |                          |                          |   |              |                     |
| Loan loss expense                                | -                        | 796,000                  | 130,000                                 | -            | 926,000             |
| DAF refund provision, net of refunds             | 76,000                   | -                        | -                                       | -            | 76,000              |
| Changes in assets and liabilities:               |                          |                          |   |              |                     |
| Due from other funds                             | (41,739)                 | (105)                    | (218)                                   | 41,925       | (137)               |
| Administrative fee receivable - BND              | -                        | (73,527)                 | -                                       | -            | (73,527)            |
| Default fee receivable                           | -                        | -                        | (467,858)                               | -            | (467,858)           |
| Department of Education receivable               | (203)                    | -                        | 504,227                                 | -            | 504,024             |
| Account maintenance fee receivable               | 63,390                   | -                        | -                                       | -            | 63,390              |
| Loan processing and issuance fee receivable      | (58,347)                 | -                        | -                                       | -            | (58,347)            |
| Default aversion fee receivable                  | 998                      | -                        | -                                       | (998)        | -                   |
| Unearned administrative fee                      | -                        | 251,956                  | -                                       | -            | 251,956             |
| Due to other funds                               | (8,305)                  | 23,428                   | 41,891                                  | (41,925)     | 15,089              |
| Payable to lenders                               | -                        | -                        | (302,290)                               | -            | (302,290)           |
| Collections payable                              | 4,950                    | -                        | (25,736)                                | -            | (20,786)            |
| Federal Student Loan Reserve Fund                | -                        | -                        | 1,133,411                               | -            | 1,133,411           |
| Default aversion fee payable                     | -                        | -                        | (998)                                   | 998          | -                   |
| Other payables                                   | (8,732)                  | -                        | (88)                                    | -            | (8,820)             |
| NET CASH FROM OPERATING ACTIVITIES               | <u>\$ 262,323</u>        | <u>\$ 669,688</u>        | <u>\$ 1,012,341</u>                     | <u>\$ -</u>  | <u>\$ 1,944,352</u> |

**NORTH DAKOTA GUARANTEED STUDENT LOAN PROGRAM**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED SEPTEMBER 30, 2009**

**EXHIBIT A-1**

| <b>Federal Grantor/Program Title</b>  | <b>Federal<br/>CFDA<br/>Number</b> | <b>Expenditures</b>            |
|---|------------------------------------|--------------------------------|
| <b>DEPARTMENT OF EDUCATION</b>  |                                    |                                |
| Direct Program  |                                    |                                |
| Federal Family Education Loan Program (Note 2)  | 84.032                             |                                |
| Reinsurance Payments  |                                    | \$ 7,902,575                   |
| Guarantee Agency's Equitable Share of Loan Collections  |                                    | 691,130                        |
| Default Aversion Fee  |                                    | 234,424                        |
| Account Maintenance Fee   |                                    | 702,419                        |
| Loan Processing and Issuance Fee  |                                    | 797,153                        |
|   |                                    | <u>10,327,701</u>              |
| Total FFEL Program  |                                    |                                |
| Guaranteed Student Loans  |                                    |                                |
| Original principal amount of loans from previous years on<br>which there are continuing compliance requirements |                                    | 1,089,286,607                  |
| Guaranteed student loan principal guaranteed during the fiscal year   |                                    | <u>209,693,872</u>             |
|   |                                    |                                |
| Total guaranteed student loans (Note 3)   |                                    | <u>1,298,980,479</u>           |
|   |                                    |                                |
| <b>TOTAL FEDERAL AWARDS</b>   |                                    | <u><u>\$ 1,309,308,180</u></u> |

**NOTE 1 -** The schedule of expenditures of federal awards includes the federal grant activity of the North Dakota Guaranteed Student Loan Program and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**NOTE 2 -** See Notes 5 and 6 to the financial statements for information relative to the existence and value of federal loan guarantee programs.

**NOTE 3 -** At September 30, 2009, the original principal amount of guaranteed student loans outstanding on which there are continuing compliance requirements is \$1,170,697,919.

**NORTH DAKOTA GUARANTEED STUDENT LOAN PROGRAM  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
YEAR ENDED SEPTEMBER 30, 2009**

**EXHIBIT A-2**

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There were no prior audit findings reported for the North Dakota Guaranteed Student Loan Program.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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The Industrial Commission  
State of North Dakota  
Bismarck, North Dakota

We have audited the financial statements of the business-type entities of the North Dakota Guaranteed Student Loan Program, a department of the State of North Dakota, as of and for the year ended September 30, 2009, which collectively comprise North Dakota Guaranteed Student Loan Program's basic financial statements and have issued our report thereon dated December 7, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

*Internal Control over Financial Reporting*

In planning and performing our audit, we considered North Dakota Guaranteed Student Loan Program's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the North Dakota Guaranteed Student Loan Program's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the North Dakota Guaranteed Student Loan Program's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the North Dakota Guaranteed Student Loan Program's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the North Dakota Guaranteed Student Loan Program's financial statements that is more than inconsequential will not be prevented or detected by the North Dakota Guaranteed Student Loan Program's internal control.

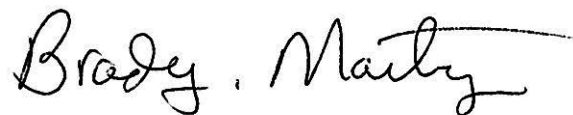
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the North Dakota Guaranteed Student Loan Program's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

*Compliance and Other Matters*

As part of obtaining reasonable assurance about whether the North Dakota Guaranteed Student Loan Program's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the North Dakota Industrial Commission, Legislative Audit and Fiscal Review Committee, management, and the U.S. Department of Education, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Brady, Martz". The signature is written in a cursive, flowing style.

**BRADY, MARTZ & ASSOCIATES, P.C.**

December 7, 2009

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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The Industrial Commission  
State of North Dakota  
Bismarck, North Dakota

*Compliance*

We have audited the compliance of the North Dakota Guaranteed Student Loan Program with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2009. The North Dakota Guaranteed Student Loan Program's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the North Dakota Guaranteed Student Loan Program's management. Our responsibility is to express an opinion on the North Dakota Guaranteed Student Loan Program's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the North Dakota Guaranteed Student Loan Program's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the North Dakota Guaranteed Student Loan Program's compliance with those requirements.

In our opinion, the North Dakota Guaranteed Student Loan Program complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2009.



*Internal Control Over Compliance*

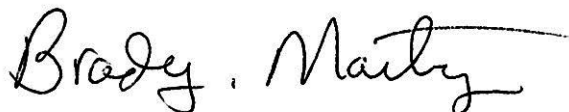
The management of the North Dakota Guaranteed Student Loan Program is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the North Dakota Guaranteed Student Loan Program's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of North Dakota Guaranteed Student Loan Program's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the North Dakota Industrial Commission, Legislative Audit and Fiscal Review Committee, management, and the U.S. Department of Education, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Brady, Martz". The signature is written in a cursive, flowing style.

**BRADY, MARTZ & ASSOCIATES, P.C.**

December 7, 2009

**NORTH DAKOTA GUARANTEED STUDENT LOAN PROGRAM  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED SEPTEMBER 30, 2009**

**EXHIBIT A-5**

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**PART I - SUMMARY OF AUDITOR'S RESULTS**

1. An unqualified opinion was issued on the financial statements of the North Dakota Guaranteed Student Loan Program.
2. We noted no matters involving internal control that we considered to be material weaknesses during the audit of the financial statements.
3. The audit disclosed no instances of noncompliance that were material to the financial statements of the North Dakota Guaranteed Student Loan Program.
4. We noted no matters involving internal control over the major program that we considered to be material weaknesses during the audit.
5. An unqualified opinion was issued on compliance for the major program of the North Dakota Guaranteed Student Loan Program.
6. The audit disclosed no audit findings required to be reported under Section 510(a) of OMB Circular A-133.
7. The North Dakota Guaranteed Student Loan Program receives federal financial assistance under one program, the Federal Family Education Loan Program (84.032), which is considered to be a major program.
8. The North Dakota Guaranteed Student Loan Program receives federal financial assistance under one program, the Federal Family Education Loan Program (84.032), which is considered to be a Type A program. There are no Type B programs. The threshold for distinguishing between Type A and B Programs was \$300,000.
9. The North Dakota Guaranteed Student Loan Program qualified as a low-risk auditee under Section 530 of OMB Circular A-133. However, the Program received notification that the Federal Family Education Loan Program at guaranty agencies is deemed high-risk and must be audited as a major program.

**PART II - FINDINGS RELATING TO THE FINANCIAL STATEMENTS**

1. There are no findings relating to the financial statements, which are required to be reported in accordance with Generally Accepted Government Auditing Standards.

**PART III - FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS**

1. There are no findings or questioned costs relating to the federal award programs which are required to be reported in accordance with Section 510(a) of OMB Circular A-133.

**NORTH DAKOTA GUARANTEED STUDENT LOAN PROGRAM  
AUDITOR'S SPECIFIC COMMENTS REQUESTED BY THE  
NORTH DAKOTA LEGISLATIVE AUDIT AND FISCAL REVIEW COMMITTEE  
YEAR ENDED SEPTEMBER 30, 2009**

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The Legislative Audit and Fiscal Review Committee requires that certain items be addressed by independent certified public accountants performing audits of state agencies. The items and our responses are as follows:

**1. What type of opinion was issued on the financial statements?**

*An unqualified opinion was issued on the 2009 financial statements.*

**2. Was there compliance with statutes, laws, rules, regulations under which the agency was created and is functioning?**

*Yes - A review was made of Chapter 15-62.1 and other pertinent chapters of the North Dakota Century Code and we felt the Agency operated within the statutes, laws, rules and regulations under which it was created.*

**3. Was internal control adequate and functioning effectively?**

*Yes*

**4. Were there any indications of lack of efficiency in financial operations and management of the agency?**

*No*

**5. Has action been taken on findings and recommendations included in prior year audit reports?**

*There were no prior year findings.*

**6. Was a management letter issued? If so, provide a summary below, including any recommendations and the management response.**

*No*

**Audit Committee Communications:**

- 1. Identify and significant changes in accounting policies, any management conflicts or interest, any contingent liabilities, or any significant unusual transactions.**

*None*

- 2. Identify any significant accounting estimates and the process used by management to determine those estimates.**

*None*

- 3. Identify any significant audit adjustments.**

*None*

- 4. Identify any disagreements with management, whether or not resolved to the auditor's satisfaction, relating to financial accounting, reporting, or auditing matters that could be significant to the financial statements.**

*None*

- 5. Identify any significant difficulties encountered in performing the audit.**

*None*

- 6. Identify any major issues discussed with management prior to retention.**

*None*

- 7. Identify any management consultations with other accountants about auditing and accounting matters.**

*None*

- 8. Identify any high-risk information technology systems critical to operations based on the auditor's overall assessment of the importance of the system to the agency and its mission.**

*Based on the audit procedures performed, the North Dakota Guaranteed Student Loan Program's critical information technology system is the Priority Guarantee System (PGS). There were no exceptions identified that were directly related to this application.*

This report is intended solely for the information and use of the North Dakota Industrial Commission, Legislative Audit and Fiscal Review Committee, management, and the U.S. Department of Education, and is not intended to be and should not be used by anyone other than these specified parties.

*Brady, Martz*

**BRADY, MARTZ & ASSOCIATES, P.C.**

December 7, 2009

**INDEPENDENT AUDITOR'S COMMUNICATION  
TO THE INDUSTRIAL COMMISSION OF NORTH DAKOTA**

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The Industrial Commission  
State of North Dakota  
Bismarck, North Dakota

We have audited the financial statements of the North Dakota Guaranteed Student Loan Program for the year ended September 30, 2009, and have issued our report thereon dated December 7, 2009. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated October 1, 2009, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our letter about planning matters.

Significant Audit Findings

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the North Dakota Guaranteed Student Loan Program are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2009. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

*Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

*Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

*Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated December 7, 2009.

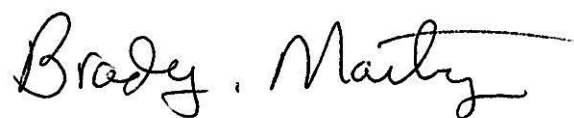
*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This letter is intended solely for the information and use of the North Dakota Industrial Commission and management of the North Dakota Guaranteed Student Loan Program, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Brady Martz". The signature is written in a cursive, flowing style.

**BRADY, MARTZ & ASSOCIATES, P.C.**

December 7, 2009